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TAGS: [PGOV](#) [EINV](#) [ENRG](#) [PREL](#) [ECON](#) [SW](#) [AR](#)
SUBJECT: SKANSKA SCANDAL TAKES DOWN FIRST TWO OFFICIAL
VICTIMS; GOA FACING OTHER PROBLEMS AS WELL

REF: A. BUENOS AIRES 906

[1](#)B. BUENOS AIRES 844

[1](#)1. (SBU) Summary: Skanska-gate has its first two official victims. On May 16, Cabinet Minister Alberto Fernandez announced the firing of the President of ENARGAS (the GoA's natural gas regulatory authority) and the Manager of Nacion Fideicomisos (the public trust established to structure private funding public works projects), following a judge's order that the two be called in for questioning in the Skanska case. The Judge's order comes after it was revealed that an internal Skanska auditor in October 2005, made tapes of a conversation he had with then-Skanska commercial manager Javier Azcarate, in which Azcarate stated that bribes totaling 5% of the inflated cost of gas pipeline projects Skanska had been awarded had been paid to ENARGAS (Madaro) and Nacion Fideicomiso (Ulloa).

[1](#)2. (C) The judge's order, that the two officials be called in for questioning (and the existence of the tape), undercut the Government's previous spin that the Skanska scandal is exclusively an issue of bribery between private companies. The question is, will there be further implication of government officials in the scandal? Moving up the food chain, the most logical candidates would be Secretary of Public Works Jose Lopez and Secretary of Energy Daniel Cameron, who also have technical oversight authority over the project. Both work for Planning Minister De Vido. The GoA moved quickly to fire the two officials in an attempt to quell the growing investigation and public attention.

3.(C) In unrelated-but-ongoing headaches for the government: the Attorney General Prosecutor for Administrative Issues Manuel Garrido, on May 16, requested the dismissal of powerful Internal Commerce Secretary Guillermo Moreno (the President's front man in the war on inflations) and the head of the National Statistical Agency's (INDEC's) consumer price index (CPI) office Beatrice Pagliero on the grounds that they might obstruct an ongoing investigation of irregularities in INDEC's CPI calculations. And, passenger disgruntlement over delayed commuter train service erupted into a full scale riot with significant damage to one of Buenos Aires' main train stations, numerous injuries and multiple arrests. The federal government blamed the private concessionaire for the problems with the train service and, interestingly, fingered the radical leftist piquetero group "Quebracho" for instigating the violence at the train station. The

government has promised a full investigation. The headline of one noted analyst's column May 17 was "Is Kirchner losing it?" End Summary.

Skanska-gate: Not Just a Matter Between Private Companies

¶4. (C) The growing scandal is over apparent cost inflation and payment of bribes/kickbacks tied to the expansion and modernization of the national natural gas pipeline network, and actions taken by pipeline expansion project contractors --including Swedish construction giant Skanska. The scandal claimed its first two official victims (see Ref. B for more background). On May 16, Cabinet Minister Alberto Fernandez announced the firing of two high-level officials, Fulvio Madaro, President of ENARGAS (the GoA's natural gas regulatory authority), and Nestor Ulloa, Manager of Nacion Fideicomisos (a public trust established to structure private funding of public works projects). The firings follow Judge Guillermo Montenegro's order that the two officials be called in for questioning in the Skanska case. The Judge's order comes after it was revealed that during an internal Skanska audit in October 2005, auditor Claudio Corizzo (already under suspicion and questioned in the case) had made tapes of a conversation he had with then-Skanska commercial manager Javier Azcarate (also under suspicion and questioned), in which Azcarate apparently stated that bribes totaling 5% of the cost of the pipeline project had been paid to ENARGAS (Madaro) and Nacion Fideicomiso (Ulloa). This tape would be inadmissible in a trial but there is apparently admissible corroborating evidence.

¶5. (C) The judge's order that the two officials be called in for questioning (and the existence of the tape), undercut

the Government's previous spin that the Skanska scandal is exclusively an issue of bribery between private companies. The question is, will there be further implication of government officials in the scandal? Moving up the food chain, the next most logical candidates to come under scrutiny would be Secretary of Public Works Jose Lopez and Secretary of Energy Daniel Cameron, who also have technical

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oversight authority over energy infrastructure development projects. Both report to Planning Minister De Vido.

¶6. (C) President Kirchner earlier -- while insisting this was a corruption issue among private companies -- had quite assuredly stated that he would take action against any government officials implicated in the investigation. To his credit, he has. Nevertheless, while these officials are not charged or indicted in the case, their being called in for questioning is a blow to this government's effort to portray itself as clean of the corruption that is typically attributed to virtually every previous Argentine administration. In announcing the firings, Cabinet Chief Anibal Fernandez stated that in no way did the firing of the Madaro and Ulloa imply any guilt or involvement in the case. Nevertheless, he said, the Judge's citation for the two to come in for questioning was sufficient motive for them to be removed from their positions. Fernandez stated that the government wanted to avoid any implication that Madaro and Ulloa were being "shielded."

INDEC CPI Crisis

¶7. (C) In another ongoing political headache for the GoA, the Attorney General Prosecutor for Administrative Issues Manuel Garrido, on May 16, requested the dismissal of powerful Internal Commerce Secretary Guillermo Moreno and the head of the National Statistical Agency's (INDEC's) consumer price index (CPI) Beatrice Pagliero on the grounds that they might obstruct an ongoing investigation of irregularities in INDEC's calculation of the CPI index. Moreno is Kirchner's

heavy-handed front man in the war on inflation who has attempted to control double digit inflation via a series of "voluntary" price accords with private sector producers of key consumer items. A controversy has emerged whether the government is doctoring the statistics. Moreno had been instrumental in Paglieri's appointment to INDEC in February. Paglieri has since implemented a series of methodological changes in CPI calculation that have resulted in lower-than-expected monthly consumer inflation totals. INDEC rank-and-file have accused Paglieri of a politicized manipulation of inflation figures to allow the GoA to claim that it had reduced inflation to single digits in a pre-election year. Local and international analysts linked this reported heavy-handed manipulation of CPI numbers to a broader loss of credibility in GoA economic statistics and a consequent increase in country risk premium. Local media reports that Economy Minister Miceli, a political adversary of Moreno, is preparing to announce an overhaul of INDEC, to include some form of international best practices oversight, that will restore its tarnished credibility and lessen Moreno's influence in the Kirchner administration.

Bad Train Service - Burn Down the Train Station

18. (C) On May 14, at the beginning of afternoon rush hour, a stalled train in the Constitucion train station disrupted service resulting in a full blown riot as disgruntled passengers set fire to ticket booths and clashed with police.

There were numerous injuries and multiple arrests. The government blamed the private concessionaire for the problems with the train service and, interestingly fingered the radical leftist piquetero group "Quebracho" for instigating the violence at the train station. The government has promised a full investigation. This event, on the tail of extended and violent teacher strikes in the President's home province of Santa Cruz and earlier in the province of Neuquen, a series of ongoing labor-related demonstrations that are wreaking havoc for commuters in the subways and on the streets of Buenos Aires and for business travelers and tourists at the municipal airport, has given some the

impression that President Kirchner is starting to lose some of his vaunted control. That was the theme of a front page editorial in center-right paper-of-record La Nacion on May 17.

19. (SBU) Comment: Many observers gave little credence to the government's insistence that the Skanska scandal was only an issue between private companies and assumed it was only a matter of time before government officials would be pulled in. No GoA officials have been charged yet, and the investigative process is sufficiently opaque that perhaps none will. The story, however, "has legs" and is not going to go away soon. While all this might be significant -- and worrisome for the government -- in a normal electoral environment, with no effective opposition and no apparent challenger on the horizon, President Kirchner (or the First Lady Senator Fernandez de Kirchner) should be able to ride out the storm and win reelection comfortably in October. This scandal, which threatens to spread and taint more senior officials close to (or in) the Casa Rosada, and the seemingly endless series of (mostly small scale) strikes and demonstrations, give the impression, however, that the Kirchner governance model is beginning to show some strain.

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